Moody's Investors Service

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FINANCE DEPT. DIRECTOR

February 11, 2005

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Mr. Michael Hill
Director Financial Services
Lynchburg (City of) VA
900 Church St.-City Hall
Lynchburg, VA 24505

Dear Mr. Hill:

We wish to inform you that on February 10, 2005, Moody's Rating Committee reviewed and assigned a rating of **Aa3** to Lynchburg (City of) VA's General Obligation Public Improvement Refunding Bonds, Series 2005.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Robyn Kapiloff, at 212-553-4051.

Sincerely,

Bill Leech
Senior Vice President

cc: Mr. John Conrad
BB & T Capital Markets
2 South Ninth Street
Richmond, VA 23219

Moody's Investors Service

Global Credit Research
New Issue
10 FEB 2005

New Issue: Lynchburg (City of) VA

REVISED: MOODY'S ASSIGNS Aa3 TO LYNCHBURG'S (VA) $38M G.O. PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2005

Aa3 AFFIRMATION AFFECTS $153M IN PARITY DEBT OUTSTANDING, INCLUDING NET EFFECT OF CURRENT ISSUE

Municipality
VA

Moody's Rating

ISSUE		RATING
General Obligation Public Improvement Refunding Bonds, Series 2005		Aa3
Sale Amount	$38,660,000	
Expected Sale Date	02/10/05	
Rating Description	General Obligation	

Opinion

NEW YORK, Feb 10, 2005 -- Moody Investors Service has assigned a Aa3 rating to the City of Lynchburg, Virginia's $38.7 million General Obligation Public Improvement Refunding Bonds, Series 2005. Concurrently, Moody's has affirmed the Aa3 rating on the city's $153.5 million of previously issued parity debt. Both series are secured by the city's general obligation unlimited property tax pledge. The Aa3 long-term rating reflects the city's modestly growing economic base; satisfactory financial performance in the face of state cuts and expenditure pressures; and above average debt levels. Proceeds of the bonds will refinance the city's outstanding Series 1996, 1997, 1998A, 1999 and 2000 bonds for a net present value savings approximating 5.4% of refunded principal.

GROWING ECONOMIC BASE SUPPORTED BY NEW CAPITAL INVESTMENT

Moody's expects the city's diverse economic base will continue to grow given ongoing private investment encouraged through aggressive economic development efforts. A regional commercial center in western Virginia, Lynchburg has experienced healthy 5.4% average annual growth in assessed valuation over the last five years and its tax base now exceeds a sizeable $3.9 billion. This reflects both the introduction of new industry and expansion of existing industries, including a Frito Lay (subsidiary of PepsiCo, Inc. - rated Aa3) food processing plant, the BWX Technologies (Nuclear Fuel), and the healthcare facilities of Centra Health (rated A1). Recent expansion of existing business reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, and infrastructure and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants to the area. This effort included renovation of historical commercial space into artist lofts and living space as well as establishment of a children's museum in another historical warehouse. In addition to a number of other manufacturing firms, the city contains a major medical center, several colleges, and a large regional shopping mall, as well as several big box retailers, all of which serve the surrounding areas. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of $59,994.

HISTORY OF SOLID FINANCIAL PERFORMANCE CHARACTERIZED BY STABLE RESERVE LEVELS AND DIVERSE REVENUE STREAMS

While Moody's expects the city's solid financial performance to continue, given consistently ample reserve levels and diverse revenue streams, we recognize that the city faces a host of expenditure pressures in the coming years. The city has maintained healthy reserves despite a draw down of approximately $5 million in fiscal 2001 for non-recurring capital expenditures. While the city saw an addition to fund balance of approximately $1.35 million in fiscal 2002, fiscal 2003 saw a modest decline of $724,000 due to the combined impact of state funding cuts and an increase in compensation expenditures. However, the fiscal 2003 budget included approximately $3.8 million in non-recurring capital expenditures that provided some financial buffer. The City beat initial projections for fiscal 2004 and ended with a $1.9 million operating surplus reflecting sales tax and property tax receipts in excess of budget. The General Fund also provided $4.2 million in capital pay-as-you-go financing in fiscal 2004.

The city's fiscal 2005 budget included an increase in the personal property tax rate ($1.9 million in additional revenue), a constant real estate tax rate, which given assessed value growth provided $4 million in new revenue, and an increase in the meals tax rate ($1 million in additional revenue). The budget included the appropriation of $354,000 in previously designated fund balance for capital projects as well as $1.6 million for pay-as-you-go financing. The city expects to re-appropriate the school's 2004 operating surplus (for non-recurring expenditures as per MOU) that was designated in year end 2004 fund balance for this purpose. Year-to-date management reports that while personal property tax revenue is falling below budget, real estate, sales and meals tax receipts are all exceeding budget, which, taken with expected expenditure side savings, are expected to result in better than budgeted operations. Moody's believes that the city faces the difficult challenge of addressing expenditure pressures while at the same time preserving financial flexibility. Future rating action will hinge on the city's ability to maintain financial flexibility in the face of budget pressures.

WITH SUBSTANTIAL ENTERPRISE SUPPORT, DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that the city's debt burden (3.7% of full valuation) while above average will remain manageable, despite significant additional borrowing plans, given rapid retirement of principal, ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. Debt burden is net of $115 million of self-supporting water and sewer debt, almost equally divided between general obligation and revenue bonds. Principal is repaid at a rapid pace (70% in ten years) and Moody's believes the city's growing tax base will adequately accommodate future borrowing needs. The city has a five-year capital plan in the amount of $190 million, of which approximately $124.8 million is projected to be financed through the issuance of long-term debt over the next five years. A substantial portion of debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, currently faces a number of other challenges, including growing expenditures and high rates, which are in danger of becoming uncompetitive. To address this issue, the city restructured a portion of the outstanding sewer debt through a zero-interest state revolving loan in order to extend maturities and improve coverage margins. This action freed up an additional $20 million in debt capacity to devote to CSO projects. Moody's expects operations will be sufficient to maintain the city's general obligation credit strength, given the system's history of stable financial operations and strong management.

KEY STATISTICS

Population (2000): 65,269

2004 Full Valuation: $3.9 billion

Full Value Per Capita: $59,994

Unemployment Rate (12/04): 3.9% (vs. 3.0% for Commonwealth and 5.1% for the nation)

Debt burden: 3.7 %

10-Year Payout: 70%

General Fund Balance (2004): $23.7 million (18.3% of General Fund revenues)

Per capita income as % of state (1999): 76.2%

Median family income as % of state (1999): 75.4%

Post sale parity debt outstanding: $153.5 million

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